

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**HB 1274**

March 10, 2009

**SUMMARY OF BILL:** Changes the method for computing coal severance tax from 20 cents per ton to 4.5 percent of the gross value. Creates the Coal Severance Fund for the purpose of disbursing and accounting for coal severance tax revenue. Creates a state sales tax exemption for all sales, and services related to installation, of qualified solar water heating equipment, qualified photovoltaic equipment, qualified wind generators, and qualified backup systems. Requires Coal Severance Fund monies first be allocated to offset the loss of state sales tax revenue resulting from the sales tax exemption proposed, with the remainder being allocated to the State Treasurer for the purpose of providing funding for public policies for the assistance of counties affected by coal mining, the reclamation of land and waters damaged by prior mining, and programs for energy conservation and solar energy generation.

**ESTIMATED FISCAL IMPACT:**

**Increase State Revenue – Net Impact –**

**\$178,400/Recurring/Department of Revenue**

**\$3,737,600/Recurring/TN Surface Mine Reclamation Fund**

**Forgone State Revenue – Exceeds \$140,000/Recurring**

**Increase State Expenditures - \$32,400/One-Time**

**Increase Local Revenue – \$3,234,200/Recurring**

Coal Tax Assumptions:

- According to the Department of Revenue (DOR), coal severance tax collections were \$519,090 in FY07-08.
- The current coal severance tax is levied at \$0.20 per ton.
- The number of tons of coal severed in FY07-08 is estimated to be 2,595,450 ( $\$519,090 / \$0.20 = 2,595,450$ ).
- The number of severed tons remains constant.

- Under current law, the Department of Revenue retains three percent of all coal severance tax collections for administration. This amount is estimated to be \$15,600 per year ( $\$519,090 \times 3.0\% = \$15,572$ ).
- Local government receives the remaining 97 percent. This amount is estimated to be \$503,500 per year ( $\$519,090 \times 97.0\% = \$503,517$ ).
- The Energy Information Administration of the U.S. Department of Energy has estimated the price of coal in the Central Appalachia to be approximately \$66.45 per ton (as of January 16, 2008).
- Central Appalachia coal prices remain constant.
- The gross value of severed coal is estimated to be \$172,467,700 per year ( $2,595,450 \text{ tons} \times \$66.45 \text{ per ton} = \$172,467,653$ ).
- Total coal severance tax collections are estimated to be \$7,761,000 per year ( $\$172,467,700 \times 4.5\% = \$7,761,047$ ).
- The Department of Revenue will retain 2.5 percent of total collections for administrative costs. This amount is estimated to be \$194,000 per year ( $\$7,761,000 \times 2.5\% = \$194,025$ ).
- The net increase to the Department of Revenue is estimated to be \$178,400 per year ( $\$194,000 - \$15,600 = \$178,400$ ).
- Remaining coal severance tax collections (net of administrative costs) are estimated to be \$7,567,000 per year ( $\$7,761,000 - \$194,000 = \$7,567,000$ ).
- Approximately \$91,700 of coal severance tax collections (net of administrative costs) shall be used to offset the loss of state sales tax revenue associated with the sales tax exemption proposed in Section 5 of this bill.
- Coal severance tax collections (net of administrative costs and costs resulting from the state sales tax exemption) are estimated to be \$7,475,300 per year ( $\$7,567,000 - \$91,700 = \$7,475,300$ ).
- Fifty percent (\$3,737,700) will be allocated to local government.
- The increase to local government revenue is estimated to be \$3,234,200 per year ( $\$3,737,700 - \$503,500 = \$3,234,200$ ).
- The remaining fifty percent (\$3,737,600) will be allocated to the Tennessee Surface Mine Reclamation Fund.
- The increase to one-time state expenditures for computer and software enhancements is estimated to be \$32,400.

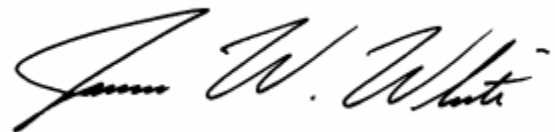
#### Sales Tax Exemption Assumptions:

- Purchasers of the identified equipment must be enrolled in the Tennessee Valley Authority Generation Partners (TVA-GP) program in order to be eligible for the state sales tax exemption proposed in this legislation.

- From information provided by TVA in 2006, taxable sales of qualified equipment for which purchasers were enrolled in the TVA-GP program, were estimated to be approximately \$1.0 million per year.
- Eight percent annual growth of gross sales since 2006.
- Adjusted gross sales for FY09-10 are estimated to be \$1,310,100.
- The exclusion of solar water heating equipment used for the heating or pre-heating of swimming pools is assumed to also apply to hot tubs, spas, etc.
- The current state sales tax rate is seven percent.
- The decrease of state sales tax revenue for FY09-10 is estimated to be \$91,700 ( $\$1,310,100 \times 7.0\% = \$91,707$ ).
- This bill does not exempt qualified equipment purchases from local option sales tax. Therefore, local option sales tax revenue shall remain unchanged.
- Demand for photovoltaic (PV) and wind generator systems, for which purchasers would be enrolled in the TVA-GP program, is estimated to increase if this bill is enacted into law.
- Incremental sales of PV equipment and wind generators are estimated to exceed \$2,000,000 per year.
- Forgone state revenue is estimated to exceed \$140,000 per year ( $\$2,000,000 \times 7.0\% = \$140,000$ ).

### **CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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